

## Message Text

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INFO OCT-01 NEA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 NSC-05 SS-15 L-03

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INFO ALL EC CAPITALS 1687

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E.O. 11652: N/A

TAGS: EFIN, ETRD, EEC

SUBJECT: EC FINANCE COUNCIL MEETING, FEBRUARY 16: HIGHLIGHTS

REF: (A) EC BRUSSELS 1309, (B) 75 EC BRUSSELS 10804, (C) EC BRUSSELS  
A-46

1. BEGIN SUMMARY: THE EC FINANCE MINISTERS, AT THEIR COUNCIL MEETING  
HELD IN BRUSSELS ON FEBRUARY 16, APPROVED THE NEGOTIATION OF A \$1  
BILLION LOAN FOR ITALY FROM THE EC'S COMMON BORROWING FACILITY AND TH  
E  
NEGOTIATION OF A \$300 MILLION LOAN FOR IRELAND, POSSIBLY FROM  
THE SUADI ARABIAN MONETARY AGENCY. SPECIFIC TERMS OF BOTH LOANS  
REMAIN TO BE WORKDE OUT. THE MINISTERS POSTPONED CONSIDERATION  
OF THE IMPOSITION OF MINIMUM STEEL PRICES WITHIN THE COMMUNITY  
PENDING A REASSESSMENT OF THEIR UTILITY BY THE EC COMMISSION  
AND ALSO POSTPONED DISCUSSION REGARDING THE  
EXPANDED USE OF THE NEW EC UNIT OF ACCOUNT. FINALLY, THE MINISTERS  
DISCUSSED THE POSSIBILITY OF HARMONIZING MEMBER STATE EXPORT  
CREDIT ACTIVITIES. END SUMMARY.

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2. ITALIAN LOAN: THE COUNCIL AUTHORIZED THE COMMISSION TO BEGIN

NEGOTIATIONS WITH A CONSORTIUM OF APPROXIMATELY 28 BANKS (LED BY THE NATIONAL WESTMINSTER BANK, THE DRESDNER BANK AND THE BANK OF PARIS AND THE NETHERLANDS) WITH A VIEW TOWARD BORROWING ONE BILLION DOLLARS FROM THE EURO-DOLLAR MARKET. THE COUNCIL DISCUSSED, BUT DID NOT YET FINALIZE, THE ECONOMIC POLICY CONDITIONS TO BE IMPOSED ON THE ITALIAN GOVERNMENT. (SEE EC BRUSSELS 1309.) AT THEIR RESTRICTED LUNCH THE MINISTERS DISCUSSED AT LENGTH THE MERITS OF A FIXED OR VARIABLE INTEREST RATE FOR THIS LOAN. NO DECISION WAS REACHED BUT A MAJORITY OF MINISTERS, LED BY APEL OF THE FRG, FAVORED A FIXED RATE. THE MINISTERS PLAN TO TAKE UP THE PROPOSED LOAN AT THEIR MARCH 15 MEETING AT WHICH TIME COMMISSION OFFICIALS HOPE A FINAL DECISION CAN BE REACHED.

3. LOAN TO IRELAND: THE MINISTERS APPROVED HAVING THE COMMISSION NEGOTIATE A THREE HUNDRED MILLION DOLLAR LOAN TO PROVIDE BALANCE OF PAYMENTS SUPPORT TO IRELAND UNDER THE EC'S COMMON BORROWING

FACILITY. THE COUNCIL SET ECONOMIC POLICY REQUIREMENTS FOR THE LOAN (SEE REF. B) WHICH WERE CONSISTENT WITH THE ECONOMIC POLICIES PUT FORTH BY THE IRISH GOVERNMENT. UNDER THESE CONDITIONS, THE GROWTH IN IRISH GOVERNMENT BORROWING, AS A PERCENTAGE OF THE GROSS NATIONAL PRODUCT, SHOULD BE HALTED IN 1976 AND REDUCED IN SUBSEQUENT YEARS. EVERY EFFORT IS TO BE MADE TOWARD FINANCING THE LARGEST POSSIBLE PORTION OF IRELAND'S PUBLIC SECTOR BORROWING REQUIREMENT BY NON-MONETARY MEANS. FINALLY, THE IRISH GOVERNMENT IS TO EXERCISE CAUTION IN THE EXPANSION OF DOMESTIC CREDIT, ESPECIALLY IF THE DEMAND FOR PRIVATE CREDIT SHOULD BE LARGER THAN PRESENTLY ENVISAGED. THE IRISH LOAN WHICH IS SCHEDULED TO COME FROM THE SAUDI ARABIAN MONETARY AGENCY IS TO BE FOR A PERIOD OF FIVE YEARS. THE INTEREST RATE AND SEVERAL LEGAL CONDITIONS ON THE LOAN REMAIN TO BE WORKED OUT. THE COMMISSION PROPOSAL CITED A 9.2 PERCENT EFFECTIVE RATE BUT SEVERAL MINISTERS THOUGHT THIS WAS TOO HIGH. THE COUNCIL AGREED TO FIVE ITS FULL SUPPORT TO THE COMMISSION IN THE LATTER'S NEGOTIATIONS WITH THE SAUDIS SO AS TO OBTAIN AN INTEREST RATE LOWER THAN THE PRESENT COMMERCIAL RATE ON THE EUROPEAN BOND MARKET. EC OFFICIALS SAY THEY WILL CONSIDER AN EUROPEAN BOND BORROWING AS AN ALTERNATIVE FOR IRELAND SHOULD THE SAUDIS BE INFLEXIBLE ON THE INTEREST RATES AND LEGAL CONDITIONS, PARTICULARLY GUARANTEES FOR THE PAYMENT OF INTEREST. LIMITED OFFICIAL USE

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4. EXPORT CREDITS: DUTCH FINANCE MINISTER DUISENBERG CALLED FOR A HARMONIZATION OF EC EXPORT CREDIT ACTIVITIES. HE LISTED A NUMBER OF MEASURES-COST ESCALATION INSURANCE, EXCHANGE RATE GUARANTEES, PRE-FINANCING OF EXPORTS-WHICH MEMBER STATES HAD RECENTLY TAKEN. THE DUTCH GOVERNMENT WAS CONSIDERING PROVIDING 50 MILLION GUILDERS OF SUPPORT FOR COMPANIES FACING AN ESCALATION IN EXPORT CREDIT COMPETITION. DUISENBERG CALLED FOR COMMISSION

PROPOSALS TO PREVENT DISTORTIONS IN EXPORT CREDIT COMPETITION WITHIN THE EC. EC COMMISSIONER HAFERKAMP RESPONDED THAT THE COMMISSION HAD ALREADY SUBMITTED TWO PROPOSALS: REQUESTS FOR MANDATES TO NEGOTIATE AN EXPORT CREDIT GENTLEMEN'S AGREEMENT AND TO SIGN AN OECD AGREEMENT ON LOCAL COST FINANCING. HAFERKAMP FURTHER REFERRED TO THE RECENT EUROPEAN COURT OF JUSTICE DECISION REAFFIRMING THE COMMUNITY'S COMPETENCE IN THIS AREA, SAYING THAT THE COMMISSION SHOULD BE RESPONSIBLE FOR HARMONIZING CREDIT TERMS WITHIN THE COMMUNITY AND WITH THIRD COUNTRIES. (OUR SOURCES INDICATED THAT NOT ALL MEMBER STATES AGREED WITH HAFERKAMP'S INTERPRETATION OF THE COURT'S RULING.)

5. FRANCH FINANCE MINISTER FOURCADE SAID LEGAL ARGUMENTS WERE NOT IMPORTANT, BUT ONE MUST LOOK BROADLY AT DISTORTIONS TO COMPETITION. SOME COUNTRIES HAD ALLOWED THEIR EXCHANGE RATES TO DEPRECIATE, HAD RESTRICTED IMPORTS OR HAD PLACED PRIOR DEPOSITS ON IMPORTS WHICH HAD ALSO DISTORTED TRADE. A PIECEMEAL APPROACH TOWARD HARMONIZATION WAS NOT THE ANSWER. FOURCADE INDICATED THAT ECONOMIC AND MONETARY UNION HAD NOT ADVANCED SUFFICIENTLY TO WARRANT A COMMUNITY APPROACH TOWARD EXPORT CREDITS. ON THE OTHER HAND, FRANCE FAVORED A GENTLEMEN'S AGREEMENT TO LIMIT EXPORT CREDIT COMPETITION IN ORDER TO MAINTAIN ORDER AND AVOID SEVERE THIRD-COUNTRY COMPETITION.

6. THE OTHER MINISTERS GENERALLY FAVORED EC EFFORTS TO HARMONIZE EXPORT CREDITS, BUT SEVERAL ADVOCATED A PRAGMATIC APPROACH. CHANCELLOR OF THE EXCHEQUER HEALEY SAID THAT UNNECESSARY COMPETITION SHOULD BE PREVENTED. APEL SUPPORTED EC HARMONIZATION BUT PROPOSED A FLEXIBLE APPROACH.

7. THE COUNCIL CHAIRMAN SUMMED UP THE DISCUSSION BY SAYING A MAJORITY FAVORED EXPORT CREDIT HARMONIZATION AND THE EC COMMITTEE OF PERMANENT REPRESENTATIVES (COREPER) SHOULD GIVE ATTENTION TO LIMITED OFFICIAL USE

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COMMISSION PROPOSALS IN THIS AREA. FOURCADE RESPONDED, HOWEVER, THAT THE COREPER MAY PROPOSE WHAT IT LIKES BUT ONE MUST ALSO LOOK AT THE POLITICAL EFFECTS OF THESE PROPOSALS. OUR SOURCES INTERPRET THIS AS AN IMPLIED THREAT THAT THE GOF WILL BLOCK ANY DECISION TO GRANT EC AUTHORITY IN THIS AREA.

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8. DUTCH PERM DEL SOURCES CONCLUDE FROM THE DISCUSSION THAT DESPITE THE CHAIRMAN'S SUMMING UP, THE MAJOR MEMBER STATES ARE PREPARED TO GO ALONG WITH FRENCH EFFORTS TO KEEP EXPORT CREDITS OUT OF THE EC FRAMEWORK IN ORDER TO OBTAIN FRENCH AGREEMENT TO LIMITE EXPORT CRDDITS. FRG PERM DEL SOURCES TELL US THAT THE FRG WANTS AN EXPORT CREDIT AGREEMENT AND IS PREPARED TO COMPROMISE WITH THE FRENCH ON PROCEDURE IN ORDER TO OBTAIN ONE. FRG SOURCES ADD THAT THEY HOPE T WORK OUT AN ARRANGEMENT TO AVOID A CONFRONTATION WITH THE COMMISSION ON THIS ISSUE.

9. EUROPEAN INVESTMENT BANK: BEFORE THE COUNCIL SESSION, THE EC FINANCE MINISTERS MET AS GOVERNORS OF THE EUROPEAN INVESTMENT BANK. THEY DISCUSSED THE EFFECT ON THE BANK'S INCREASED FINANCING OF PROJECTS OUTSIDE THE COMMUNITY (SEE REF. C). DUISENBERG PROPOSED THAT THE EIB MAINTAIN ITS LENDING TO MEMBER STATES DESPITE THE INCREASED VOLUME OF ITS LOANS TO THIRD COUNTRIES. A WORKING GROUP REPORTED THAT CURRENT BANK COMMITMENTS WOULD LIKELY REQUIRED AN INCREASE IN EIB CAPITAL AT THE BEGINNING OF 1979, INSTEAD OF THE SCHEDULED INCREASE IN 1980. FOURCADE AND APEL OPPOSED A CAPITAL INCREASE BEFORE 1980. AND CAME OUT AGAINST A POLICY OF UNLIMITED EIB LOANS TO THIRD COUNTRIES. BOTH MINISTERS AGREED,  
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HOWEVER, THAT PROVISION SHOULD BE MADE FOR POSSIBLE EIB LOANS TO ISRAEL AND THE MASHRAQ COUNTRIES IN THE CURRENT NEGOTIATIONS OF COOPERATION AGREEMENTS. FRANCE, SUPPORTED BY ITALY, CALLED FOR ESTABLISHING LOAN PROIRITIES SO THAT THE REAL VALUE OF LOANS TO MEMBER STATES WOULD BE MAINTAINED AT LEAST 1975 LEVELS.

10. FOLLOWING A SUGGESTION OF FRENCH FINANCE MINISTER FOURCADE, A WORKING GROUP IS TO PREPARE DRAFT EIB GUIDELINES FOR THE FINANCE MINISTERS TO CONSIDER ON MARCH 15.

11. MINIMUM EC STEEL PRICE: THE COUNCIL BRIEFLY DISCUSSED THE COMMISSION'S INFORMAL PROPOSALS REGARDING THE FIXING OF A MINIMUM COMMUNITY STEEL PRICE UNDER ARTICLE 61 (B) OF THE PARIS TREATY. THERE WAS EVEN LESS MEMBER STATE SUPPORT FOR APPLYING MINIMUM PRICES THAN HAD BEEN MANIFEST IN THE COMMISSIN'S EARLIER CONSLTATIONS WITH THE ECSC ADVISORY COMMITTEE AND COREPER (SEE EC BRUSSELS 1154 AND PREVIOUS). THE COUNCIL ASKED THE COMMISSION TO RECONSIDER ITS PROPOSAL IN LIGHT OF THE GENERALLY IMPORVED SITUATION IN THE STEEL SECTOR. PERM DEL SOURCES INFORM US THAT IN VIEW OF THE IMPROVED PRICE SITUATION, A MAJORITY OF THE MEMBER STATES, INCLUDING FRANCE, DO NOT, AT PRESENT, FAVOR THE IMPOSITION OF SUCH A MINIMUM PRICE SYSTEM. UNLESS THE COMMISSION DECIDES TO DRAFT THE IDEA ENTIRELY, A SECOND ROUND OF CONSULTATIONS WILL TAKE PLACE ON MODALITIES AND PRICE LEVELS. IT IS TOO EARLY TO KNOW WHAT THE COMMISSION WILL DO, BUT PROSPECTS FOR ITS PUSHING AHEAD WITH THE APPLICATION OF MINIMUM PRICES SEEM CONSIDERABLY REDUCED FOLLOWING THE COUNCIL DISCUSSIONS.'

12. EXPANDED USE OF THE NEW EUROPEAN UNIT OF ACCOUNT: THE MINISTERS DEFERRED DISCUSSION REGARDING EXPANDED USE OF THE NEW EUROPEAN UNIT OF ACCOUNT (MADE UP A MARKET BASKET OF EUROPEAN CURRENCIES) UNTIL THEIR MARCH SESSION. AT THAT TIME THEY WILL DISCUSS THE MATTER IN HOPES OF TAKING A DECISION AT THE APRIL COUNCIL.

13. CIEC COOPERATION: BELGIAN FINANNCE MINISTER DE CLERCQ SUGGESTED THAT THE FINANCE COUNCIL TAKE AN ACTIVE INTEREST IN FINANCILA ISSUES COMING UP IN THE NORTH-SOUTH DIALOGUE. HE PROPOSED THAT THE EC MONETARY COMMITTEE GIVE TO THE COUNCIL ITS VIEWS OF THESE ISSUES AND COMMISSION PROPARATORY DOCUMENTS SHOULD BE TRANSMITTED TO THE COUNCIL. DE CLERCQ ADDED THAT THE COUNCIL LIMITED OFFICIAL USE  
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SHOULD ADOPT A COMMON POSITION ON THESE ISSUES. THERE WAS NO REACTION TO THIS INTERVENTION OTHER THAN MONETARY COMMITTEE CHAIRMAN POEHL'S STATEMENT THAT THE COMMITTEE WOULD PURSUE THIS REQUEST.

14. INFORMAL FINANCE MEETING: UK CHANCELLOR HEALEY PROPOSED THE CONVENING OF AN INFORMAL FINANCE MINISTERS MEETING ALONG THE LINES OF THE MEETINGS PREVIOUSLY HELD IN LONDON AND IN VENICE. THIS MEETING, WHICH IT WAS AGREED WOULD BE HELD IN LUXEMBOURG WITHIN THE NEXT TWO MONTHS, WOULD FOCUS ON THE POLICIES TO BE ADOPTED WITH REGARD TO UNEMPLOYMENT IN THE MEDIUM TERM. HINTON

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## Message Attributes

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